



# Australian Ethical<sup>®</sup> Investment

for Investors, Society and the Environment

## ASX Announcement

ASX Code: AEF

Date: 23 November 2006

### AGM presentations

The attached presentations will be delivered to this evening's AGM by Australian Ethical's Chair and Chief Executive Officer.

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### ***Company Background***

Australian Ethical Investment Ltd is a funds manager that specialises exclusively in ethical funds management. Four managed investment schemes and corresponding superannuation strategies (for accumulation and pension accounts) are offered: the Australian Ethical Large Companies Share Trust, the Australian Ethical Equities Trust, the Australian Ethical Balanced Trust and the Australian Ethical Income Trust. The Australian Ethical Charter is the foundation of the investment process. It aims to avoid harmful investments and actively seeks investments that benefit society and the environment. Uniquely, the company's constitution requires that 10% of profit is donated to charitable and conservation initiatives.

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**Australian Ethical®**  
**Investment + Superannuation**

**CEO PRESENTATION**

**ANNUAL GENERAL MEETING**

**Thursday 23 November 2006 at 7:30pm**

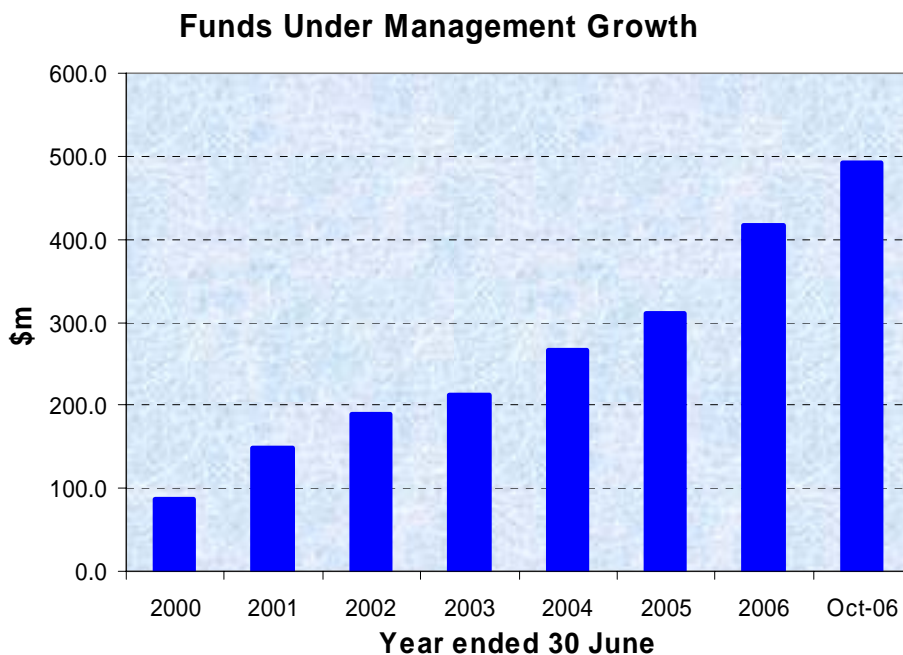
Good evening ladies and gentlemen and welcome to the Annual General Meeting of Australian Ethical Investment Ltd. (AEI)

The 2005/2006 financial year has been a great one for the Group, we have achieved another record profit and our business has continued to grow strongly. This is especially pleasing coming, as it does, on the excellent result achieved in the previous year.

The Annual Report that you have all received contained a full set of financial statements. AEI prepares its financial statements in accordance with the requirements of the Corporations Act and the Australian Accounting Standards. Our auditors, Thomas Davis and Co, have provided an unqualified opinion that the financial reports give a true and fair view of the Group's financial position. We have Peter Whiteman and Jeff Ryan from Thomas Davis with us this year, welcome gentleman.

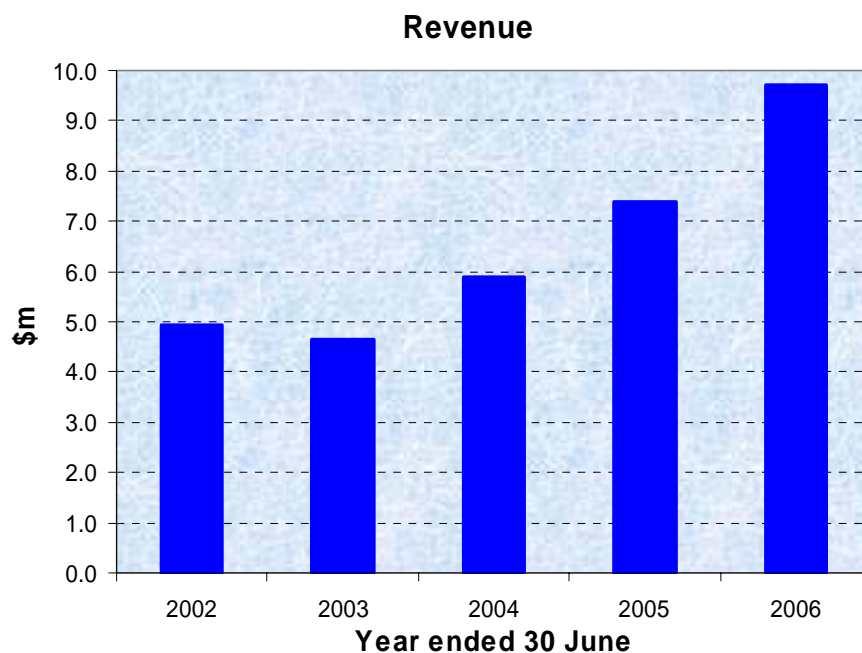
My presentation tonight will focus on the key highlights of the year and consider the challenges that lie ahead for us.

Our Funds under Management ('FUM') is the core of our business. During 2005/2006 our FUM grew to \$417m ex distribution, up from \$311m in June 2005. The distribution of \$41 million compared very favorably with the previous years distribution of \$48m.

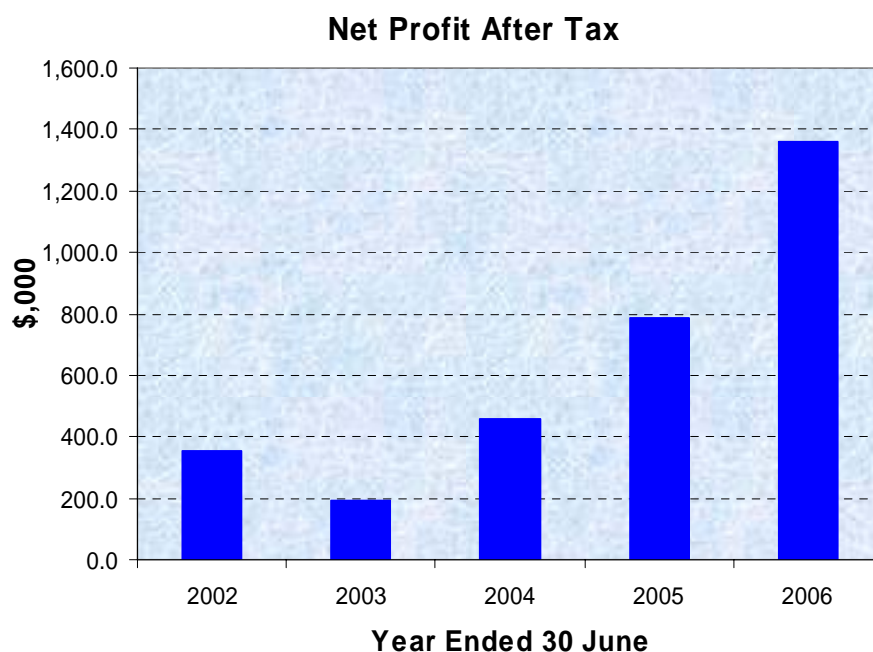


Our growth in FUM has been steady and consistent. Funds under management is now around \$500 m.

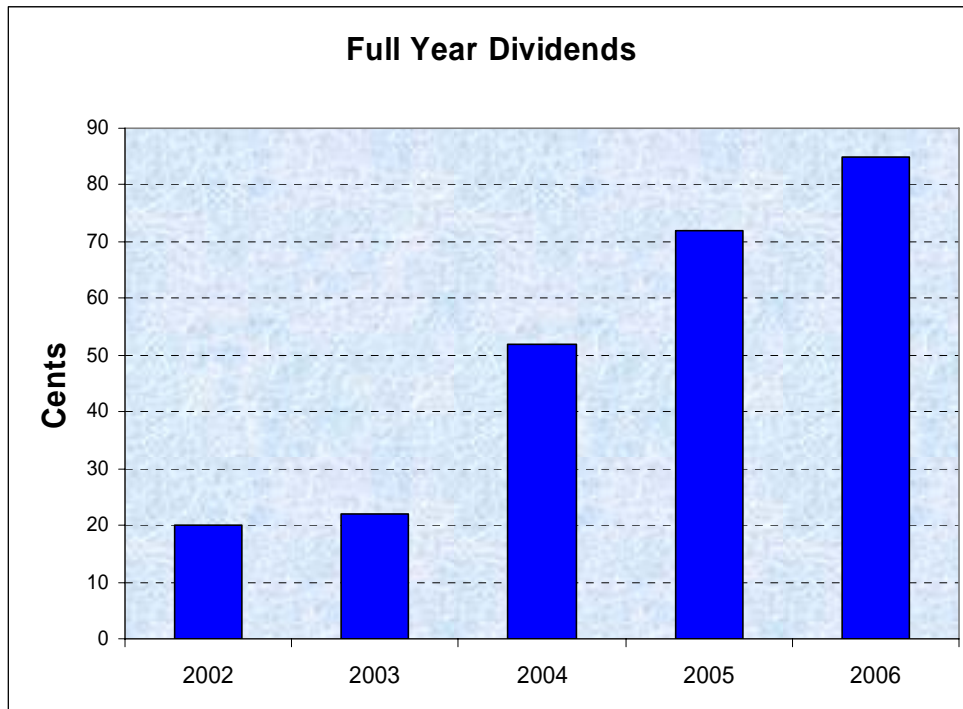
Flowing on from FUM growth, revenue grew strongly as did our Net Profit. Total revenue for the year was \$9.6 m.



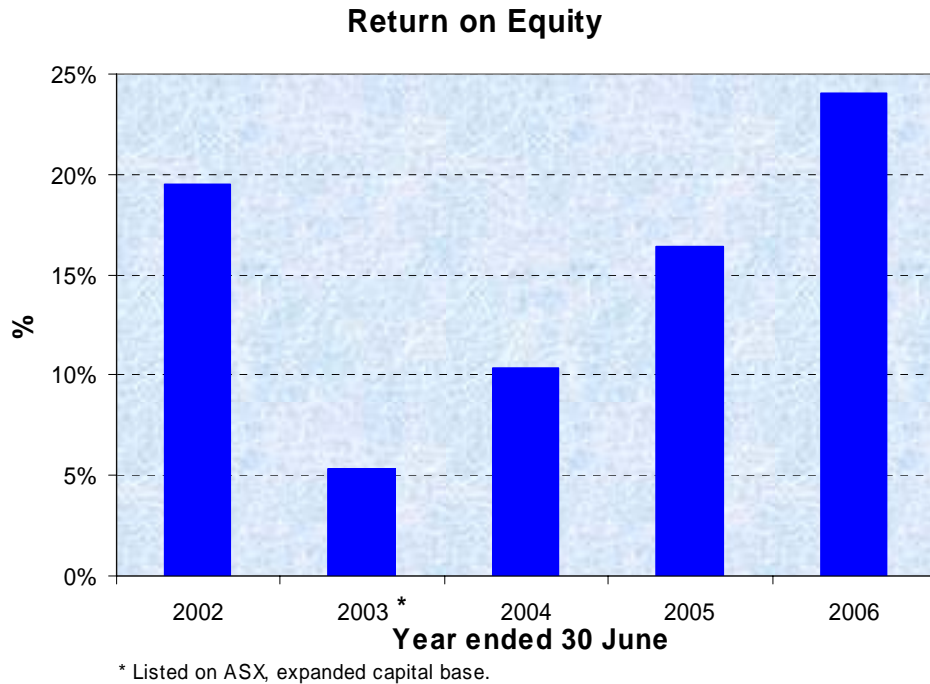
The group achieved a consolidated net profit after tax of \$1.3m, another record result. This result represents a 74% increase on the previous year, again a very pleasing outcome given the strong result in 2004/2005 which saw our profit grow by 76%.



In light of the excellent results the directors are recommending shareholders approve a fully franked dividend of 85 cents per share. That is a final dividend of 50 cents along with the interim dividend of 35 cents which was paid in March.



In deciding on the level of dividend the directors carefully consider the need to balance a return to our shareholders with the need to retain sufficient capital and liquidity to support the ongoing growth of the Company.



Return on equity for the year has increased from 16.9% to 24.1%, again another very pleasing result.

In summary, during the 2005/2006 financial year we grew our revenue and funds under management and exceeded our internal profit projections. This is an excellent outcome for the company and our stakeholders. It has enabled us to pay a record tithe of \$170,132 and to distribute a bonus pool of \$213,234 to our staff as required under our Constitution.

Superannuation continues to be a strong performer for the group with a very strong and consistent inflow. On 1 July 2006 Trustees of APRA regulated superannuation funds were required to be licensed. Our application for a license was successful and our license was granted in March this year. As previously flagged it

was a costly and time consuming exercise however one that was essential to the ongoing viability and growth of the group.

We face a number of challenges going forward:

Australia has a very low unemployment rate generally and the ACT suffers particularly in this regard. Currently our unemployment rate is around 2.7%. We have a basic supply and demand issue here and this has and will continue to impact on the level of salaries the company has to pay to recruit and keep our people. Retention of good staff is about more than salary levels. We pride ourselves on being a consultative and flexible company and we will continue to seek input from the staff on what is important to them and balance this with legislative requirements and the obligations imposed under our Charter.

The AEI Charter remains central to the inclusion or exclusion of possible investments. We have resisted investing in uranium and other mining companies and this has, at times, impacted on our returns relative to some of our competitors. We do not intend to change the way we screen our investments and see the Charter as differentiating us in the market, especially given a number of our competitors in the ethical space have chosen a different course in respect to mining. However we are mindful that the continuing resources boom and its impact on the equities market poses communication challenges for us.

Building on the economies of scale we achieved to date remains a key challenge. A tight labor market and growing compliance costs

dictate that we must remain vigilant in monitoring costs and thinking about better ways to do our business.

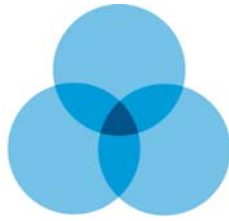
Sustainability and Corporate Social Responsibility remain high profile issues for business leaders, governments and the general public. There is currently much discussion about Environment, Social and Governance issues - ESG as it is now referred to. This year will be the 5<sup>th</sup> year that we have produced a Sustainability Report. Our 2005 Report was awarded the Association of Chartered Accounts 2005 award for continued high quality sustainability reporting for a small to medium- sized enterprise. Our 2006 report will be available on our website by the end the year or early next year.

AEI has no plans to change strategic direction. We will continue to grow organically and our Ethical Charter will continue to be the guiding force for our investments and the operations of the company and its subsidiary.

I would like to thank you our shareholders and our investors for your continued support and also publicly thank all the staff of AEI for their diligence and hard work.

Thank you.





# **Australian Ethical<sup>®</sup>** **Investment + Superannuation**

## **CHAIR'S PRESENTATION**

## **ANNUAL GENERAL MEETING**

**Thursday 23 November 2006 at 7:30pm**

### **Welcome**

Never before have we seen such global focus on environmental issues. Global warming is now attracting a level of high political discussion and commitment that has finally started to broaden awareness across the community. Community concern and a willingness to act on global warming and on other environmental and social issues can only have a positive impact on the future of the world and on Australian Ethical.

This evening I would like to cover a number of topics. I also hope to answer some questions provided by some of you prior to the meeting. There will be an opportunity for you to raise questions at the end.

I am going to cover the following topics:

- governance
- internal capability, including our new premises
- our charter and investments
- marketing and growth
- dividend policy

## **Governance**

As a listed company and fiduciary we must always ensure that we strike the right balance between our obligations to shareholders and our duties to our investors. The Board is supported in its obligations by a number of committees that enable focus on such issues as compliance, investment and finance. AEI will continue to operate this way as it enables robust discussion and attention to strategic detail which is very necessary in a company of its size. We also must remember that the AEI Group is getting more complex and is evolving into a medium size public company. It has a growing list of products, it is in a dynamic market, it is subject to close scrutiny by two regulators and it combines both internal infrastructure and key outsourcing to deliver on its imperatives.

To this end we will continue to search for non-executive directors with appropriate skills and experience to ensure good governance and leadership. There is a process in place where each director's skills and knowledge are assessed in order that we can continue to fill gaps and address any weaknesses. It is imperative that each director makes a strong contribution and therefore the search is not easy. The aim is to meet the ASX governance principles in the relation to the proportion of independent directors, though this will not be done unless the fit of the person is right.

## **Internal capability, including our new premises**

Anne has already informed you of a number of initiatives that have been put in place over the last 12 months. The capability of management within the company is very high. Across the organization there is a high level of commitment and professionalism. This is reflected in the number of staff who are shareholders and the relatively stable movement of employees in an industry which is traditionally beset by high staff turnover.

There is a robust performance review process and strong staff representation with dialogue at the Board level which ensures emerging issues are addressed promptly. We are anticipating that greater efficiencies will be obtained as we move into the new building and have a plan to ensure there is as little disruption as possible. We expect to move in in March 2007 all being well. This project is being managed by Howard Pender and he is doing all he can to keep to budget. One aim of the refurbishment project is to very significantly improve the environmental performance of the building and achieve a green star rating.

## **Our charter and investments**

Our charter is our key driver and enables our differentiation as a deep green fund manager. We have watched other fund managers move into our space but our returns and our robust selection processes provide confidence in the market place.

The stock selection processes focuses on substantial research in all aspects of potential stock operation to ensure they meet the requirements of the Charter. There are occasions when discussion is robust and when not all investment committee members agree. Part of my role as Chair is to ensure that Australian Ethical is true to label and transparent, as

this is the only way we will continue to generate confidence in the market place. There will be some investments where you will not agree with the stock selection, though I can assure you we take our obligations seriously to ensure that the stock is subject to a high level of scrutiny and maintains those characteristics that enable it to be part of the portfolio. We are constantly looking for appropriate investments. It is important that our breadth of stocks are broad enough to combat market changes in different sub-asset classes.

Those of you who follow our investments will note that more and more of our stocks are international as the number of stocks in Australia that meet the Charter are limited. The market is telling us that they have an appetite for a pure international fund and as such we intend to launch an international trust in the first half of 2007.

## **Marketing and growth**

Our research indicates that in the last six years we have increased our market share (AE FUM as a % of the total market) by some 200%. But we must continue to focus on organic growth. Accordingly, our marketing focus comprises three key strategies.

The first is a continuing focus on presentations to our potential deep-green investors as we believe they will continue to want to have direct access to the funds. Part of this strategy is to also encourage direct investment by institutions and superannuation funds. These wholesale monies can help us build scale organically.

We also acknowledge that financial planners play a key role in wealth management for many Australians. We are already on 24 platforms and will continue to pursue this distribution strategy. However we also recognize that with such a dynamic market many advisers are developing their own platform capability so it is vital that we continue to raise awareness direct with licencees and their representatives. This means that we will ensure that we have in internal capability to deal with large numbers of advisers through different platforms so that we can meet their service needs.

Our third strategy and key to our long term sustained growth is our superannuation business. The sector will continue to grow and as you would know has greatly benefited by recent changes introduced by the government. We believe we have a very strong superannuation offering and combined with the choice of fund environment and tax incentives this is an area where our marketing should be focused. Superannuation entails very long term strategies and we have a requirement for strong administration capability.

## **Dividend policy**

The board indicated in the prospectus of 15 October 2002 (under which it floated on the ASX) that it intended to recommend to future Annual General Meetings that dividends be no less than the dividend pay-out ratio (on average) over the six years prior to issue of the prospectus. This was a figure, also set out in the prospectus, of about 40%. The board

regards this statement as a firm indication of its intent on dividends, subject always to the fortunes of the company over time.

In any one year, depending on circumstances, the payout ratio may be much higher than 40%. In some years it could be much closer to 40%.

As indicated in the directors' report for 2006, the company has purchased a building in Fernhill Park, Bruce, ACT just over the other side of Haydon Drive from this meeting, for an amount of \$2.365M. Refurbishment of these premises is expected to cost between \$1M and \$2M. While the company's capital position remains strong, cash reserves have been used to finance the purchase of the building, and will be used to fund the refurbishment. Management of cash in this changed environment was an important factor for the board to consider when declaring a dividend; the board need's to ensure that the Group has adequate liquidity readily available to meet normal requirements and unforeseen events that may arise.

## **Finally**

I would now like to take this opportunity to thank the management and staff for their continued effort and commitment, the directors for their oversight and Anne for her continued strong leadership.

I would also like to thank you our shareholders for your support and hope that we will continue to deserve your support in the future.